

REPORT OF EXAMINATION  
OF THE  
ANTHEM BLUE CROSS LIFE AND  
HEALTH INSURANCE COMPANY

AS OF  
DECEMBER 31, 2009

File June 27, 2011

## TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
COMPANY HISTORY .....	2
MANAGEMENT AND CONTROL:.....	2
Management Agreements .....	4
TERRITORY AND PLAN OF OPERATION .....	6
REINSURANCE: .....	6
Assumed .....	6
Ceded .....	6
ACCOUNTS AND RECORDS.....	7
FINANCIAL STATEMENTS:.....	8
Statement of Financial Condition as of December 31, 2009 .....	9
Statement of Revenue and Expenses for the Year Ended December 31, 2009 .....	11
Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009.....	13
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	14
Claims Unpaid .....	14
Unpaid Claims Adjustment Expenses .....	14
Aggregate Health Policy Reserves.....	14
Aggregate Life Policy Reserves.....	14
Aggregate Health Claims Reserves .....	14
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	14
Current Report of Examination .....	14
Previous Report of Examination.....	14
ACKNOWLEDGEMENT .....	15

Los Angeles, California  
May 6, 2011

Honorable Dave Jones  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ANTHEM BLUE CROSS LIFE AND HEALTH INSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office and main administrative office located at 21555 Oxnard Street, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; mortality experience; and sales and advertising.

## COMPANY HISTORY

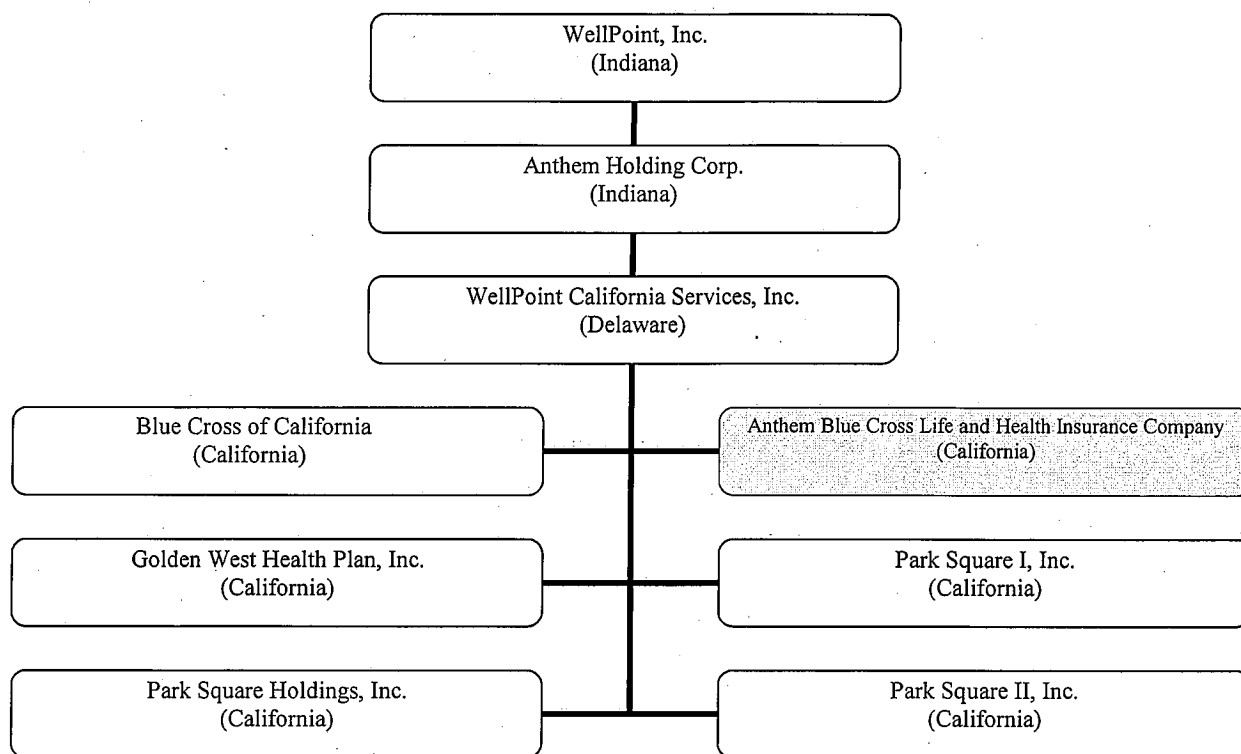
On October 4, 2007 the California Department of Insurance approved an amended Certificate of Authority to change the Company's name from BC Life & Health Insurance Company to Anthem Blue Cross Life and Health Insurance Company.

The Company paid the following ordinary cash dividends to its parent, WellPoint California Services, Inc. during the examination period:

<u>Year</u>	<u>Amount</u>
2007	\$ 238,100,000
2008	325,000,000
2009	<u>130,000,000</u>
Total	<u>\$ 693,100,000</u>

## MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's ultimate parent and its affiliates, depicts the Company's relationship within the holding company system:



(\*) all ownership is 100%.

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

#### Directors

##### Name and Residence

Wayne Scott DeVeydt  
Indianapolis, Indiana

Catherine Irene Kelaghan  
Carmel, Indiana

Leslie Ann Margolin (\*)  
Altadena, California

##### Principal Business Affiliation

Senior Vice President and Chief Financial  
Officer  
WellPoint, Inc.

Vice President and Counsel  
WellPoint, Inc.

Chief Executive Officer  
Anthem Blue Cross Life and Health Insurance  
Company

### Principal Officers

<u>Name</u>	<u>Title</u>
Leslie Ann Margolin (*)	Chief Executive Officer
Nicholas Lawrence Brecker, III	President
Wayne Scott DeVeydt (**)	Chief Financial Officer
Robert David Kretschmer	Treasurer
Kathleen Susan Kiefer	Secretary
George Lewis Chartrand	Assistant Secretary

(\*) Pamela Dianne Kehaly replaced Leslie Ann Margolin on August 30, 2010

(\*\*) Cassie Shuang Kam replaced Wayne Scott DeVeydt on October 25, 2010

### Management Agreements

Amended and Restated Master Administrative Services Agreement: Effective January 1, 2004, the Company and its ultimate parent, Wellpoint, Inc., entered into an amended and restated Master Administrative Services Agreement. The initial term of the agreement was for one year and continued for successive yearly renewal terms. The agreement can be terminated by either party by providing a one year notice prior to the expiration of any renewal. Under the terms of the agreement, Wellpoint, Inc. provides space and various administrative, management and support services to the Company. The cost and expenses related to the services provided are allocated in an amount equal to the direct and indirect costs and expenses incurred in providing such services. The Company reimbursed Wellpoint, Inc. for the actual cost of these services. For 2007, 2008, and 2009, the Company paid \$589,700,445, \$733,427,353, and \$820,806,462, respectively, in fees to Wellpoint, Inc. under the terms of this agreement. The California Department of Insurance (CDI) approved the amended agreement on June 15, 2010.

Administrative Services Agreement: Effective August 1, 2003, the Company and its affiliate, Worldwide Insurance Services, Inc. (WIS), a Virginia corporation, entered into an administrative services agreement. Under the terms of the agreement, WIS provides a variety of administrative services, including: underwriting, pricing of risk, premium and fee administration, policy and

contract administration, policyholder and customer services, claims administration, and management of third party vendors. Third party vendors include preferred provider organizations and other vendors who provide services with respect to reinsured policies of the Company under a coinsurance agreement with HTH Re. Ltd., a Bermuda reinsurer. The Company paid WIS for the actual cost of these services. For 2007, 2008 and 2009, the Company paid \$2,100,724, \$2,080,435, and \$1,987,280, respectively, in fees to WIS under the terms of this agreement. The CDI approved this agreement on September 21, 2007.

Subcontractor Services Agreement: Effective August 1, 2003, the Company and its affiliate, WIS entered into a subcontract services agreement. Under the terms of the agreement, the Company provides WIS the following services: claims adjudication services, customer services, personnel, and management services. Fees charged by the Company under this agreement are \$9.30 per claim, with additional access fees calculated based on claims experience. For 2007, 2008 and 2009, the Company received \$658,052, \$716,770, and \$807,504, respectively, in fees from WIS under the terms of this agreement. The CDI approved this agreement on September 21, 2007.

Pharmacy Benefits Administrative Services Agreement: Effective December 1, 2009, the Company entered into a Pharmacy Benefit Administrative Services Agreement with its ultimate parent, WellPoint, Inc. The agreement replaces and supersedes the previous Pharmacy Benefit Services Management Agreement between the Company and NextRx Services, Inc. (previously Professional Claim Services, Inc. dba WellPoint Pharmacy Management). Under the terms of the agreements, WellPoint, Inc. provided certain pharmacy benefit management services to the Company. For 2007, 2008, and 2009, the Company paid \$3,008,440, \$2,212,365, and \$4,901,397, respectively, in fees to Wellpoint, Inc. under the terms of these agreements. The CDI approved this agreement on October 6, 2009.

Consolidated Tax Allocation Agreement: Effective December 31, 2005, the Company and its affiliates are part of a consolidated federal income tax agreement with its ultimate parent, Wellpoint, Inc., and its subsidiaries. Allocation of taxes is based upon separate return calculations. The

intercompany income tax balances are settled based on the Internal Revenue Service due dates. The CDI approved this agreement on April 26, 2007.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and disability insurance solely in the State of California. The Company offers traditional medical and dental coverage, as well as preferred provider organization and indemnity coverage, and provides administrative services relating to health plans for self-insured employers. The Company also writes life insurance for individuals and group term life insurance for small and large employer groups. The Company's total direct written premium for the year ending 2009 was \$4.3 billion. The written premium was comprised of group accident and health insurance, \$2.3 billion (53%), other accident and health insurance of \$2 billion (46%) and group and ordinary life, \$31.9 million (1%).

The Company operates as a licensee of the Blue Cross Blue Shield Association. The Company services approximately 3.3 million members. The Company does not have its own employees. Services are provided to the Company by its affiliate, Blue Cross of California. The Company markets its products through independent agents and direct marketing.

### REINSURANCE

#### Assumed

The Company has no reinsurance assumed.

#### Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2009:



Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Group health coverage	BCS Insurance Company	Varies based on each group's stop loss agreement	Varies based on each group's stop loss agreement
Health Coverage for International Students	HTH Re, Ltd.	80% and 100% Quota Share	20% and 0% Quota Share
Individual Long Term Care various years and plans	Cologne Life Reinsurance Company	80% Quota Share	20% Quota Share
Individual Long Term Care various years and plans	Cologne Life Reinsurance Company	40% Quota Share	60% Quota Share
Individual Long Term Care various years and plans	Employers Reinsurance Corporation	60% Quota Share	40% Quota Share
Group health coverage	White Mountains Reinsurance Company of America	20% Quota Share	80% Quota Share
Basic life, supplemental life, and voluntary life, basic AD&D and Supplemental AD&D	Swiss Re Life and Health Insurance Company	\$300,000 per life	Not to exceed \$700,000 per person
Basic and Supplemental AD&D	The Hartford	\$100,000 per life	Not to exceed \$900,000 per person
Voluntary AD&D	American International Group	50% Quota Share	50% Quota Share

As of December 31, 2009, reinsurance recoverable for all ceded reinsurance totaled \$10.7 million or 1.3% of surplus as regards policyholders, 84% of the ceded reinsurance recoverable was from nonaffiliated admitted reinsurers.

### ACCOUNTS AND RECORDS

Beginning with the first quarter of 2009, the Company changed from filing a Life and Accident and Health Statement to filing a Health Statement. As a result of this change, the Company reported a change in accounting principles, which resulted in an increase to unassigned surplus of \$899,000, because the Health Statement does not require an Interest Maintenance Reserve.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Statement of Revenue and Expenses for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2006 through December 31, 2009

Statement of Financial Condition  
as of December 31, 2009

	Assets	Assets Not Admitted	Net Admitted Assets	Notes
<u>Assets</u>				
Bonds	\$ 1,442,468,637	\$	\$1,442,468,637	
Stocks:				
Preferred stocks	20,938		20,938	
Common stocks	20,011,360		20,011,360	
Cash and short-term investments	193,080,434		193,080,434	
Contract loans	149,588		149,588	
Other invested assets	3,717,346		3,717,346	
Receivable for securities	22,265		22,265	
Investment income due and accrued	18,278,496		18,278,496	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	73,332,167	8,369,983	64,962,184	
Earned but unbilled premiums	53,504		53,504	
Accrued retrospective premiums	1,568,609		1,568,609	
Amounts recoverable from reinsurers	10,722,823		10,722,823	
Other amounts receivable under reinsurance contracts	57,296		57,296	
Amounts receivable relating to uninsured plans	223,220,410	43,121,469	180,098,941	
Federal and foreign income taxes recoverable	37,248,414		37,248,414	
Net deferred tax asset	100,153,256	41,933,717	58,219,539	
Receivable from parents subsidiaries and affiliates	123,547,423		123,547,423	
Health care receivable	39,112,643	11,976,100	27,136,543	
Prepaid expenses	5,418,903	5,418,903		
Total assets	<u>\$ 2,292,184,512</u>	<u>\$110,820,172</u>	<u>\$2,181,364,340</u>	

Liabilities, Capital and Surplus

Claims unpaid	\$ 473,168,397	(1)
Unpaid claims adjustment expenses	16,431,736	(1)
Aggregate health policy reserves	185,513,994	(1)
Aggregate life policy reserves	6,575,529	(1)
Aggregate health claim reserves	6,506,994	(1)
Premium received in advance	16,049,926	
General expenses due and accrued	56,382,203	
Ceded reinsurance premiums payable	3,524,685	
Amounts withheld or retained for the account of others	2,684,957	
Remittance and items not allocated	55,656,885	
Amounts due to parent, subsidiaries and affiliates	399,870,053	
Payable for securities	6,440	
Funds held under reinsurance treaties with unauthorized reinsurers	2,958,570	
Reinsurance in unauthorized companies	2,138,120	
Liability for amounts held under uninsured plans	65,859,611	

Aggregate write-ins for other liabilities	<u>74,257,419</u>
Total liabilities	\$1,367,585,519
Common capital stock	\$ 5,000,000
Gross paid-in and contributed surplus	25,000,000
Unassigned funds surplus	<u>783,778,821</u>
Surplus as regards policyholders	<u>813,778,821</u>
Total liabilities, capital and surplus	<u>\$2,181,364,340</u>

Statement of Revenue and Expenses  
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Net premium income	\$ 4,277,798,663
Change in unearned premium reserves and reserves for rate credits	(30,155,538)
Aggregate write-ins for other health care related revenues	2,340,564
Aggregate write-ins for other non-health revenues	<u>208,136</u>
Total revenues	4,250,191,825

Deductions:

Hospital/Medical benefits	\$ 2,461,307,319
Other professional services	210,488,083
Emergency room and out of area	134,712,373
Prescription drugs	525,126,815
Net reinsurance recoveries	(32,955,347)
Non-health claims (net)	15,687,036
Claims adjustment expenses including cost containment expenses	111,665,708
General and administrative expenses	609,885,580
Increase in reserves for life and accident and health contracts	<u>4,786,838</u>
Total underwriting deductions	<u>4,040,704,405</u>

Net underwriting gain	209,487,420
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Investment Income

Net investment income earned	\$ 75,531,879
Net realized capital gains less capital gains tax	<u>359,586</u>
Net investment gain	75,891,465

Other Expenses

Net loss from agents' or premium balances charged off	\$ (1,800,185)
Aggregate write-ins for other expenses	<u>(1,063,735)</u>
Total other expenses	<u>(2,863,920)</u>
Net income before federal income taxes	282,514,965
Federal income taxes incurred	<u>111,981,697</u>

Net Income	<u>\$ 170,533,268</u>
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 760,113,421
Net income	\$ 170,533,268	
Net unrealized capital gains	10,327,309	
Change in net deferred income taxes	4,661,924	
Change in nonadmitted assets	(2,776,121)	
Change in unauthorized reinsurance	20,271	
Cumulative effect of change in accounting principles	898,749	
Dividends to stockholders	<u>(130,000,000)</u>	
Change in surplus as regards policyholders		<u>53,665,400</u>
Surplus as regards policyholders, December 31, 2009		<u>\$ 813,778,821</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006, per Examination \$ 762,072,948

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net gains	\$ 745,922,958	\$
Net unrealized capital losses		2,475,121
Change in deferred income taxes	66,223,998	
Change in liability for reinsurance in unauthorized companies	529,745	
Change in nonadmitted assets		71,432,502
Change in asset valuation reserve	5,138,046	
Cumulative change in accounting principles	898,749	
Dividends to stockholders	<u>                    </u>	<u>693,100,000</u>
Totals	<u>\$ 818,713,496</u>	<u>\$ 767,007,623</u>

Net increase in surplus as regards policyholders for the examination 51,705,873

Surplus as regards policyholders, December 31, 2009, per Examination \$ 813,778,821

## COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Claims Unpaid
- (1) Unpaid Claims Adjustment Expenses
- (1) Aggregate Health Policy Reserves
- (1) Aggregate Life Policy Reserves
- (1) Aggregate Health Claims Reserves

The Company was directed by the California Department of Insurance (CDI), under California Insurance Code Section 733, to retain the Actuarial firm of Lewis & Ellis, Inc., Actuaries & Consultants (L&E) for the purpose of assisting this examination in determining the reasonableness of the Company's policy and claims reserves, unpaid claims and unpaid claims adjustment expenses. Based on the analysis by L&E and the review of their work by a Life Actuary from the CDI, the Company's December 31, 2009 reserves were determined to be fairly stated.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

Comments on Financial Statement Items-Aggregate Reserve for Accident and Health Contracts (Page 13): It was recommended that the Company review its claim reserve methodology and include only claims' data that was most relevant and applicable to the line of business whose reserve was being determined. The Company is in compliance with this recommendation.



### ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Sam Sohrab, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California